

## **Agenda Item 7: Grants & Other Transfers (Revenue & Non-Exchange Expenses)**

Joanna Spencer, Manager, Standards Development and Technical Projects

Paul Mason, Principal

IPSASB Consultative Advisory Group Meeting

Kuala Lumpur, Malaysia

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## Project Update - Revenue

### CAG last discussed Revenue at the June 2018 meeting

### Provided input into three issues

- Using the Public Sector Performance Obligation Approach (PSPOA) – CAG Yes, IPSASB Yes
- Expand the concept of a Performance Obligation beyond a ‘transfer of goods and/or services’ – CAG Yes, IPSASB Not yet finalized
- Mandatory recognition of Services in Kind – CAG No, IPSASB No

## Issues still to be discussed - Revenue

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Licences and fines

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Subsequent measurement of receivables

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Taxes with long collection periods

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Capital Grants (dependent on concept of Performance Obligation as to which standard will address Capital Grants)

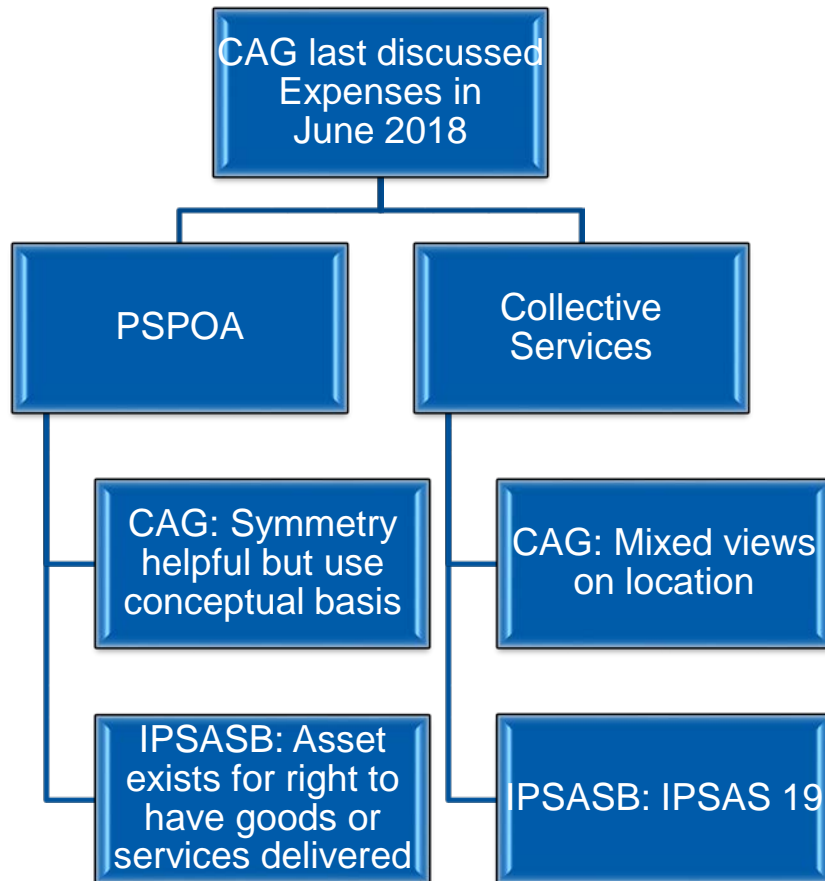
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Transactions with time requirements – this meeting

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Exposure Draft expected to be approved for issue at the September 2019 IPSASB meeting

# Project Update – Non-Exchange Expenses



## Issues still to be Discussed – Expenses

- Subsequent measurement of payables
- Capital grants (link to performance obligation)
- Time requirements (this meeting)
- Exposure Draft – September 2019 IPSASB meeting

## Time requirements – Revenue – the issues

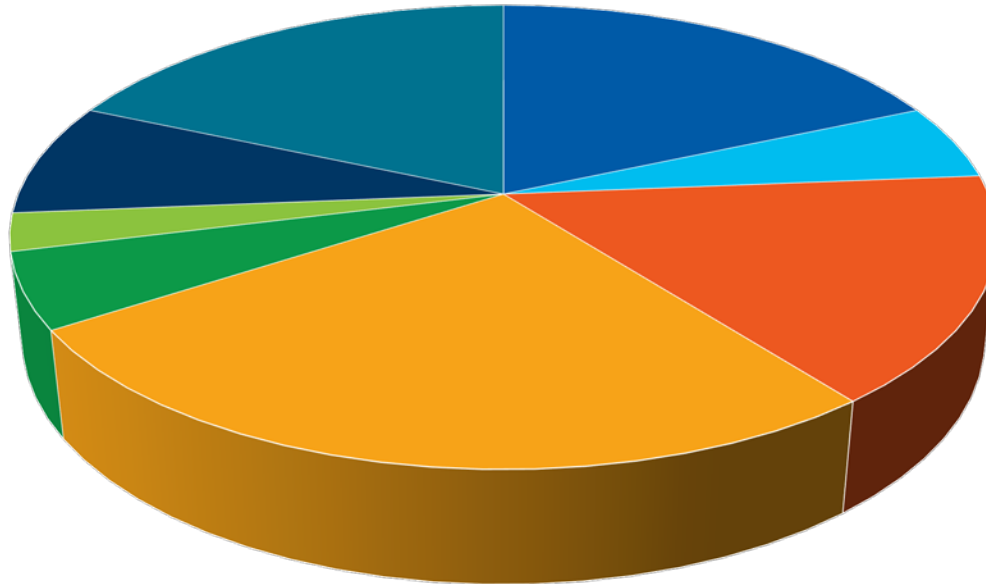
“A provision in an agreement indicating the resource provider’s intention that the resources are to be used by the resource recipient in a specific time period”

- Identified in the Consultation Paper, *Accounting for Revenue and Non-Exchange Expenses* as an IPSAS 23 application issue because it is too restrictive
  - Revenue recognized on day one may show a surplus
  - Does not communicate the donor’s intention for funding to be used over a number of periods
- May hinder the usefulness of the information provided

## Time requirements – Revenue – Options in CP

- The CP provided four approach to address time requirements
  - Require enhanced display and/or disclosure
  - Classify time requirements as a condition
  - Classify transfers with time requirements as ‘other obligations’
  - Recognize a transfer with time requirements in net assets/equity and recycle through the statement of financial performance

# Time requirements – Revenue – Feedback



- Require enhanced display/disclosure - 7
- Classify as a condition - 2
- Classify as an other obligation - 6
- Recognize in net assets/equity and recycle - 10
- Alternative option - 2
- None of the options - 1
- Response not clear - 3
- No comment - 7

## Time requirements – Revenue – Display/Disclosure

### Option (a) – Enhanced Display and/or Disclosure

Advantages	Disadvantages
Stays true to the definition of elements in the Conceptual Framework	Does not show on the financial statements that the recipient will use the resources in future periods
The current IPSAS literature does not prohibit this option	Does not resolve the mismatch between the revenue recognition and when the resources are consumed
Gives the recipient a method of communicating its performance story	Suggests reserve accounting which may be seen as a backward step for some jurisdictions
Help educate users not to focus on the surplus/deficit but to look at what makes up that surplus/deficit	



# Time requirements – Revenue – Display/Disclosure

	Year 1	Year 2	Year 3	Year 4
<b>Statement of Financial Performance</b>				
<b>Revenue</b>	Recognized in full on receipt	–	–	–
<b>Expense</b>		Recognized as incurred	Recognized as incurred	Recognized as incurred
<b>Statement of Financial Position</b>				
<b>Cash/Bank</b>	Debit on receipt	–	–	–
<b>Accumulated Surplus or Deficit (Restricted)</b>	At year end, displayed or disclosed as restricted	Reduced as grant is used	Reduced as grant is used	Reduced as grant is used

## Time requirements – Revenue – ‘Other Obligation’

### Option (c) – Other Obligation

Advantages	Disadvantages
<p>Consistent with Conceptual Framework - is an economic phenomenon that doesn't meet the definition of an element but included to meet the objectives of financial reporting</p>	<p>Some argue that time requirements are deferrals and not economic phenomenon and therefore should not be treated differently from other revenue</p>
<p>Addresses constituent concerns about the mismatch between revenue recognition and when resources are consumed</p>	<p>Could lead to other deferrals being on the balance sheets even though they do not meet the definition of a liability</p>
<p>Users can see information about flows relating to future periods</p>	

# Time requirements – Revenue – ‘Other Obligation’

	Year 1	Year 2	Year 3	Year 4
<b>Statement of Financial Performance</b>				
<b>Revenue</b>	–	Recognized to match grant used	Recognized to match grant used	Recognized to match grant used
<b>Expense</b>		Recognized as incurred	Recognized as incurred	Recognized as incurred
<b>Statement of Financial Position</b>				
<b>Cash/Bank</b>	Debit on receipt	–	–	–
<b>Other Obligations</b>	Credit on receipt	Reduced as revenue is recognized	Reduced as revenue is recognized	Reduced as revenue is recognized

## Time requirements – Revenue – Net Assets/Equity

### Option (d) – Net Assets/Equity and recycle

Advantages	Disadvantages
Some consider this best represents the economic reality in terms of cash flows	Some consider this could misrepresent the recipient's financial performance – e.g. it would show that the recipient is not better off from a performance perspective even though there has been an increase in net assets
Consistent with the Conceptual Framework as the Framework does not require certain elements to be linked to particular financial statements	Deferring resources in net assets/equity may be difficult to understand as it is a change from current practice
The use of net assets/equity is already in use in other IPSAS	

# Time requirements – Revenue – Net Assets/Equity

	Year 1	Year 2	Year 3	Year 4
<b>Statement of Financial Performance</b>				
<b>Revenue</b>	–	Recognized to match grant used	Recognized to match grant used	Recognized to match grant used
<b>Expense</b>		Recognized as incurred	Recognized as incurred	Recognized as incurred
<b>Statement of Financial Position</b>				
<b>Cash/Bank</b>	Debit on receipt	–	–	–
<b>Restricted Reserves (in Net Assets/Equity)</b>	Credit on receipt	Reduced as revenue is recognized	Reduced as revenue is recognized	Reduced as revenue is recognized

## Time requirements – Revenue – Question for CAG

Given that the objective of financial reporting is to provide information about an entity to users for accountability and decision making, which of the above approaches does the CAG consider best meets this objective?

## Time Requirements – Non-Exchange Expenses

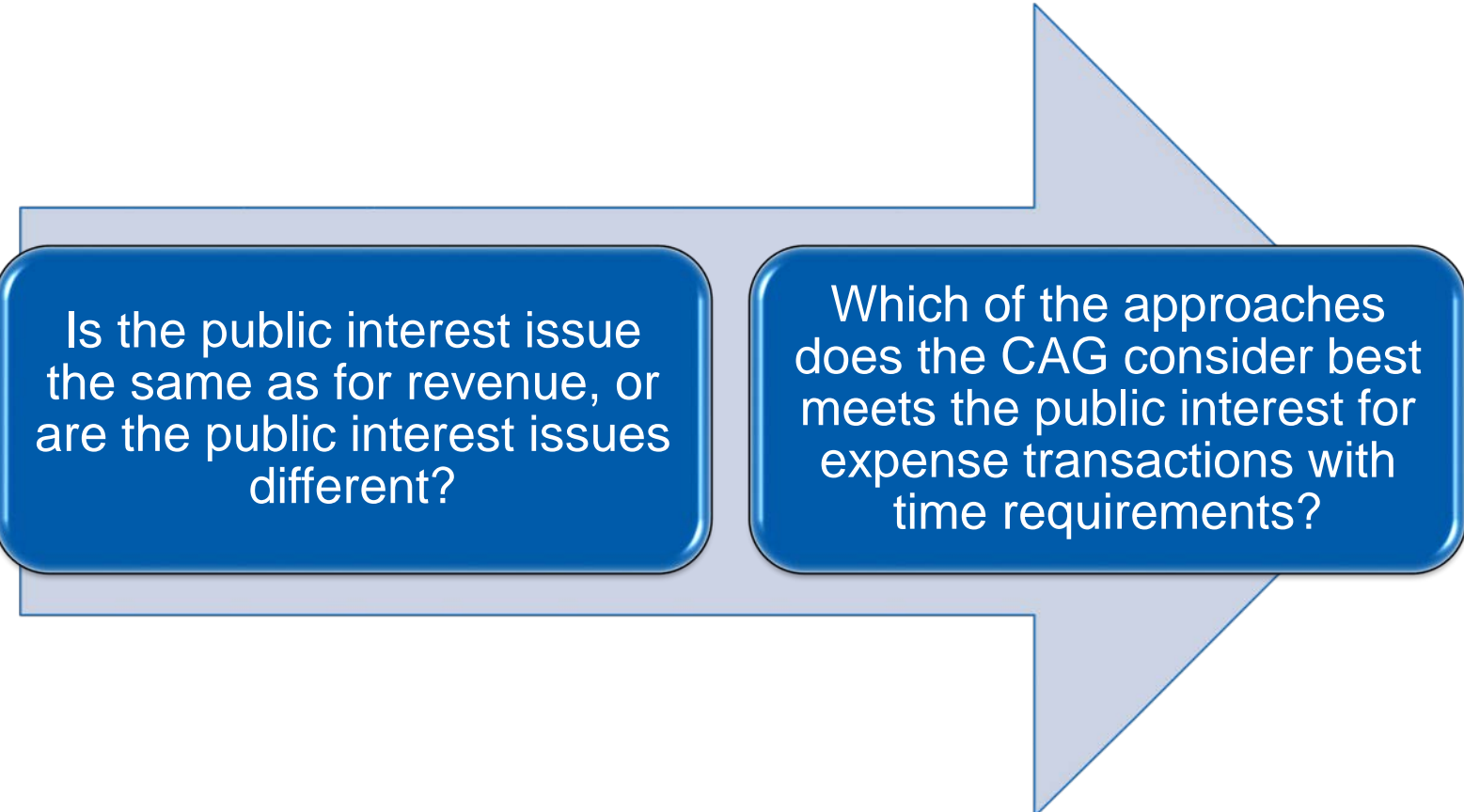
Does immediate recognition of an expense satisfy the objectives of financial reporting

- Intention or control?

Three options

- Display/disclosure
- Other obligations
- Net assets/equity

## Time Requirements – Expenses – Questions for CAG



Is the public interest issue the same as for revenue, or are the public interest issues different?

Which of the approaches does the CAG consider best meets the public interest for expense transactions with time requirements?





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